

Republic of Kazakhstan et al. v. Daniel Chapman, et al.
Supreme Court of the State of New York, County of New York
Index # 652522/2020

- **Background:** In 2020, the Republic of Kazakhstan brought suit in New York against Daniel Chapman and various affiliated entities, including Argentem Creek Partners. The lawsuit alleges fraud against Chapman and Argentem based on their financial interest in an oil exploration project in Kazakhstan operated by entities controlled by Moldovan citizens Anatolie Stati and his son Gabriel Stati, including an offshore entity called Tristan Oil. Even though the lawsuit was filed in 2020, the court activity so far has been procedural (as described below), and the lawsuit remains in early stages.
- **Alleged Stati Fraud:** Kazakhstan believes that the Statis used Tristan Oil and other vehicles to perpetrate a fraud by, among other things, hiding artificially inflated inter-company transactions aimed at siphoning funds away from the oil and gas exploration project to the Statis directly.
- **Chapman and Argentem:** Chapman and Argentem (via predecessors in interest) purchased debt in Tristan Oil in 2006/2007.
- **Alleged Chapman/Argentem Fraud:** Circa 2011, Chapman/Argentem became aware of the Statis' fraudulent activity but, instead of confronting the Statis and/or making the other Tristan Oil bondholders aware, Argentem and Chapman allegedly negotiated and entered into a "Sharing Agreement" with the Statis. Under the Agreement, Argentem and certain other parties agreed not to take legal action against the Statis in exchange for 70% of any arbitration proceeds (until they had been repaid the amount of their Tristan note investment). Chapman and his affiliated entities worked with the Statis to cover up the fraud and pursue the Republic through the Statis' arbitration against Kazakhstan, and subsequent enforcement proceedings.
- **Arbitration Award and KPMG Revocation of Audit Reports:** In 2013 the Statis obtained an arbitration award of \$500 million against Kazakhstan, relying in significant part on financial statements audited by international accounting firm KPMG. In 2019, Kazakhstan obtained evidence that the financial statements were fraudulent. When KPMG was made aware of the evidence, it withdrew 18 audit reports covering three years of financial statements and directed Tristan to notify all relevant parties that the statements could not be relied upon for any purpose.
- **Chapman/Argentem Funding Stati Litigation:** Chapman has funded some of the Statis' efforts to enforce the arbitration award, including their 2018 withdrawal from UK arbitration enforcement proceedings after the UK Court found *prima facie* evidence of the Statis' fraud and ordered a full trial on that issue.
- **Kazakhstan's Lawsuit Against Chapman/Argentem:** In 2020, Kazakhstan filed suit against Chapman (and certain of his entities) in New York State Court alleging their participation in the Statis' fraudulent conduct. Outrider Management, LLC – a California-based company and also a Tristan Oil Bondholder – joined Kazakhstan as a plaintiff asserting the same fraud claims against Chapman and Argentem.
- **Chapman/Argentem Unsuccessfully Attempt to Block Kazakhstan Lawsuit:** Chapman and Argentem petitioned Judge Amy Berman Jackson, a Federal Judge in the District of Columbia, to block the New York court action. They sought relief from Judge Berman Jackson because she concluded in an earlier case that the Stati arbitration award was entitled to recognition in the U.S.
- **Judge Berman Jackson Rejects Chapman/Argentem Request:** Judge Berman Jackson rejected the request, not even allowing Chapman and Argentem to file the motion. In doing so, she

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reminded Chapman and Argentem that she did not consider the fraud evidence raised by Kazakhstan against the Statis because she was not authorized to do so in the context of the Statis' application to enforce the arbitration award.

- **Removal to Federal Court:** In 2021, Chapman/Argentem removed Kazakhstan's lawsuit to Federal Court in the Southern District of New York and then moved to dismiss Kazakhstan's claims, as well as to compel arbitration of and dismiss Outrider's claims. In response, Kazakhstan moved to have the case remanded back to New York State Court. *Republic of Kazakhstan et al. v. Chapman et al.*, Case 1:21-cv-03507 (S.D.N.Y.).
- **Federal Court Order Remanding Kazakhstan Lawsuit to New York State Court:** On February 11, 2022, Judge Koeltl, the District Judge in the Southern District of New York, decided the pending motions by: 1) granting Kazakhstan's motion to transfer its claims back to New York State Court; 2) denying (as moot) Chapman and Argentem's motion to dismiss Kazakhstan's claims; and 3) granting Chapman and Argentem's motion to compel Outrider's claims into arbitration but denying Chapman and Argentem's motion to dismiss Outrider's claims.
- **Result and Status:** As a result of Judge Koeltl's decision, Kazakhstan's claims will be litigated in New York State Court and Outrider's claims will be litigated in arbitration.